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RCA moves to paperless purchasing with EDI

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STEEL REPORT

PurchasingWorld

Helping you manage the business of buying

Vol. 29 No. 4-April 1985

Special report: STEEL

46 It's still a buyers' market and not likely to change soon
With steel mills running at 60% of capacity and with a lot of cheap imports still in the pipeline, any price advances will come only in the form of narrowing discounts—which in many cases are fairly deep.

53 Changing market poses challenges for buyers
Domestic producers are scrambling to meet demands for quality and just-in-time delivery from more demanding buyers—while fending off the onslaught of imports.

Features

39 *Cover Story:* **RCA moves to paperless purchasing with EDI**
Buyers' computers and sellers' computers are talking to one another--through interconnection with a third party network. Here's how Electronic Data Interchange (EDI) is working for RCA at a number of locations in the East and Midwest.

62* Parlays JIT delivery to high tech firms into fast growth
Using its propietary information management systems, Skyways Inc. is helping firms achieve just-in-time delivery nationwide on their inbound shipments.

66* Quality tops list on survey of automotive purchasing
PMs at the auto companies are adamant in their assessment that quality is Number One on their list of what really counts. Other highlights of a survey by Ward's Auto World, a sister publication of *PurchasingWorld:* a shrinking domestic supplier base, more single sourcing, more sourcing from abroad, and longer term commitments.

78* CF Airfreight and Eastern Airlines in first-of-a-kind agreement
The two big transportation companies have teamed up to offer new overnight cargo and passenger service using Eastern's A300 Airbuses.

82* Tech file: vibratory equipment
Looking for a fast, dependable and efficient way of bulk material handling for chemicals, minerals, food items, pharmaceuticals, and other free flowing products? Author William S. Bules of Eriez Magnetics tells how vibratory equipment fits the bill.

Departments

4 PW Pointers
6 Editorial
9 PW Predicts
19 Business Datatrak
42 PW Transportation Report
60* New Products
60* New Literature
70* Survey: Price Discounting
86* PW Office '85
90* People
92* Sample Pak
95 Law
96 Negotiations
97 Ad Index

* Regional and demographic issues only

Photo courtesy of Interstate Steel Co.

46

Cover photo: (Left to right) Scott I. Alexander, Director, Corporate Contracts-Materials; Leonard F. Colangelo, Manager, Corporate Contracts-Materials; David A. Riggs, Staff Vice President-Materials. Photo courtesy RCA.

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PW PREDICTS

Robert S. Reichard, executive editor

Price surveys see moderation

All signs point to continued price moderation, not only through spring, but probably well into summer and fall as well.

This is supported fairly well by new price surveys. A just-completed *PurchasingWorld* survey, for example, suggests discounts are still easy to come by, with almost 75% of queried PMs getting discounts on at least some of their purchase mix.

Equally encouraging are the latest findings of the NAPM Business Survey Committee. Specifically, more buyers are now reporting price declines (18%) than boosts (7%) and the gap between the two has been widening in recent months.

Also worth noting: The 7% who are reporting higher prices represents the lowest such number since December, 1982, when the economy was at its low point. It is hard to believe that the same small number is being reported when output is a hefty 23% above the recession low.

Other good news comes from Uncle Sam's official price indexes: (1) The industrial producer price index has remained relatively unchanged during the first quarter, despite the fact that this yardstick often fails to pick up price shading; and (2) import prices have actually been declining.

This import drop, to a large extent, reflects the continuing strong dollar. And while the dollar's value *vis-a-vis* other currencies has stabilized, it will take at least another 3-6 months before the currency runup of late 1984 and early 1985 has its full impact.

Still other signs of continuing price restraint come from the cost side of the equation. For one, most basic materials remain extremely soft. *PW's* raw material price barometer—a grass roots indicator of cost pressures further upstream—is very shaky.

This weakness is pretty much spread over the broad spectrum of materials. The average steel quote, for example, is almost $100/ton under list. Most nonferrous metals remain under year ago levels; chemicals and plastic resin discounting is localized; key electronic component tags have turned down sharply; and energy is barely holding at current levels.

Perhaps even more significant for future price trends is the continuing lull in labor cost pressures. Certainly, the 3% average productivity gains of 1983 and 1984 won't be repeated. But if we manage the 2% advance now being predicted by most analysts, it would provide a significant offset to the relatively small 4% increase in pay costs that seem to be shaping up for 1985.

With all of the above forces pointing toward restraint, it is easy to see why most econometric forecasting models aren't seriously concerned about prices. The latest DRI projection, for example, sees only a 1.3% increase in industrial producer prices this year and only a 3.8% advance for 1986.

Wharton forecasters are in agreement with forecasts of 1.3% and 3.3% increases in this key inflation indicator for 1985 and 1986 respectively.

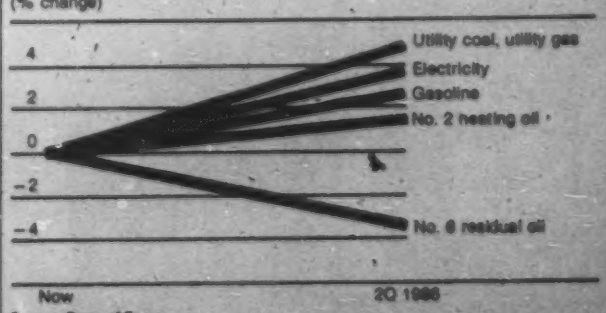
Energy price trends

Overall energy price increases should remain stable over the next 12 months, although there may be some significant variations on a product-by-product basis, according to a new quarterly review by Department of Energy analysts.

Here's a more detailed rundown: continuation of the $28/barrel for crude oil; no change in petroleum products consumption; and only a 2% increase in overall energy use.

- **Gasoline:** While price wars have brought prices in some areas of the country to under $1/gallon, the general trend should be slightly up, with average pump quotes rising from $1.16/gallon in the current quarter to $1.19/gallon by mid-1986.
- **Heating oil:** Average wholesale tags should remain static at around 81-83¢/gallon.
- **Residual fuel oil:** Expect weak prices. Continuing consumption declines and soft crude oil prices should knock about 3¢/gallon off the average quote over the next four quarters, bringing prices down to about 65¢/gallon.
- **Natural gas:** Little change is seen in wellhead prices through the end of the year. Some upward drift next year could bring quotes for utilities up about 4.5% by mid-1986.
- **Electricity:** Look for seasonal variations. And rising capital costs coupled with an expected 4.5% increase in the price of coal over the next year, could bring average second quarter tags up 4.5% over current levels.

Energy prices into early '86
(% change)



Source: Dept. of Energy

Plastic resins

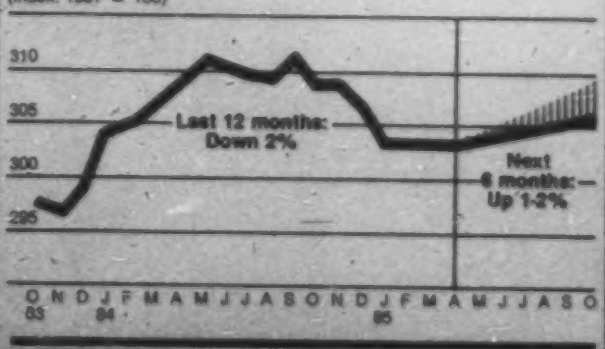
CURRENT SITUATION: Most commodity thermoplastics remain extremely soft. In most cases list prices are little more than the starting point for serious negotiations. Volume purchases of many resins can be had for 15¢/lb under book levels. The only plastic reasonably near list is ABS but even here, pipe grades are being shaded from 2-7¢/lb. Some downward pressure can be traced to weak feedstock quotes but the major factor is market competition.

DEMAND: Expect gains in the neighborhood of 3-4% this year—well under the 6% advance posted in 1984. There could also be some big variations on a resin-by-resin basis. These increases are seen for 1985: low density polyethylene (2%), high-density polyethylene (2.5%), polypropylene (5%), polystyrene (3%), and ABS (6%). Faster growth is projected for engineering plastics (about 8% annually through 1990)—partly due to the increasing use of CAD/CAM which is enabling cost-effective substitution of polymers for metals.

SUPPLY: No problems anywhere—given already low operating rates, modest demand gains, small additions to capacity, and declining exports. Lest there be any doubt about availability, look at these average operating rates projected for 1985: LDPE (80%), HDPE (87%), PP (87%), PS (66%), PVC (76%), and ABS (76%).

PRICE OUTLOOK: Modest attempts to boost market prices continue—2¢/lb hikes have recently been posted for polystyrene and polyethylene. **But chances of these and other similar increases sticking seem doubtful.** Current competitive conditions among vendors seem to preclude it. Prices will eventually turn around—probably around midyear if demand holds up and feedstock costs start edging up. Advances are still going to be in the modest 2-3% range.

Plastic resin prices
(Index: 1967 = 100)



Computers

Prices, prodded by competition and technological breakthroughs, continue to edge lower. Some signs of the times: (1) Macintosh systems (computer, external disc drive, and printer) have dropped as low as $2,165 (34% under list); (2) New desktop versions of IBM Series 1 computers start at only $3,130—less than half that of the larger types; (3) Amdahl has cut 6-12% off its J80 Series of mainframes; and (4) there's talk that the IBM PC-AT may begin to drop before too long as supplies increase and new competitive models hit the market.

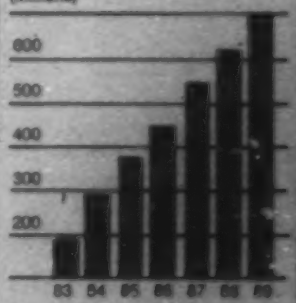
Lead

The heavy metal continues to back and fill in the under 20¢/lb range—and there's little to suggest any immediate change as worldwide demand stagnates. Domestic demand won't do more than equal last year's level—as battery demand lags and leaded gasoline is phased out. Possible strikes at Cominco and St. Joe could introduce a note of firming this spring, but but even that impact is likely to be minimal.

Robotics

Markets are starting to take off—albeit from a very small base. In 1984, for example, domestic shipments hit some $300 million—a big 50% jump over 1983 levels. And, because the average price per unit went down (from $74,000 to near $60,000), the number of robots increased by a greater amount. About 15,000 industrial robots are in place in the U.S. That's still under Japan's 30,000-plus. But, some catching up is likely as U.S. sales more than double to $700 million annually by 1989.

Robot sales
(Millions)



Chemical building blocks

Strong demand and snug supply have brought benzene contract tags up 5¢/gallon (to $1.25/gallon)—with spot quotes reported as high as $1.25/gallon. Higher tags are also ahead for vinyl chloride monomer where a new 2¢/lb increase will take prices as high as 21¢/lb—far above the 14¢/lb low of last fall. There are some soft spots, however. Cheap imports are keeping pressure on nitrile where discounts as high as 10% are noted. Also, the new 4¢/gal increase in

Copper

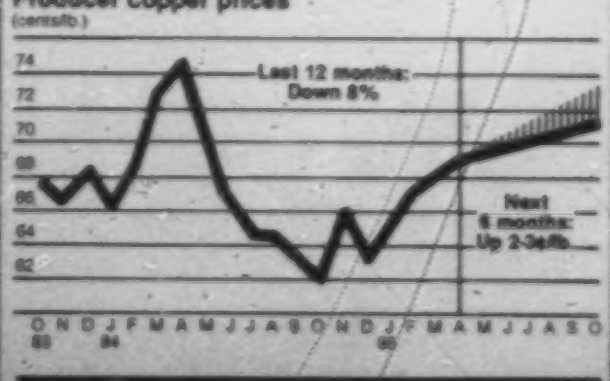
CURRENT SITUATION: Market fundamentals have improved considerably over the last few months—demand is up and inventories are down. On the latter score, both LME and Comex stocks have tumbled over the last 12 months (LME down 70% and Comex down 30%). Free World stocks are off 35%—falling from 1.5 million to only 0.95 million. **But despite all the above, the metal here in the U.S. has been unable to break through the mid-60's range** because of a strong U.S. dollar and continuing influx of low-priced imports from Third World countries.

DEMAND: 1985 should be another good year—after 1984 consumption advanced more than 10%. This year's gains won't be quite as spectacular **but a pickup in machinery should assure at least a 4% increase to 2.4 million tons.** However, the long-term prognosis isn't that great, as user trends toward substitution, miniaturization, and downsizing continue.

SUPPLY: Despite better market balance, there should be more than enough metal to go around this year. Reason: plenty of unused capacity, especially in the U.S. where mines are operating at less than 60% of potential. The Free World as a whole also has plenty of slack—more than 20% of global production currently idled with more mines on the way. Chile, (the largest producer) which produced 1.24 million metric tons last year, is talking about 1.5 million by 1990.

PRICE OUTLOOK: Several factors seem to indicate some near-term price firming: (1) the closing supply-demand gap, (2) the leveling off of the U.S. dollar, and (3) an intensifying profit squeeze. On the latter score, despite heroic cost-cutting efforts, the U.S. industry still needs a 70¢/lb plus price to get back into the black. **Best bet: an edging up toward this level by late spring or summer.**

Producer copper prices



Computer peripherals

New manufacturing techniques could reduce prices of hard disc drives. Quotes which averaged in the $1,800-1,900 range last year could be off as much as 25-50% before the year is out. Elsewhere, prices of modems are now expected to drop by 20-25% by the fourth quarter. Some manufacturers are already offering promotional incentives to move products in what is now characterized as a sluggish market.

Telephone rates

Long distance tabs could begin to fall if the FCC approves a new AT&T plan that offers 15% discounts on all direct-dialed interstate calls (available to all subscribers willing to pay a flat $25 monthly fee). The new plan, dubbed "Pro America," would yield savings to any customer with monthly bills in excess of $167/month. The move, if okayed, could prompt retaliation by competitors such as MCI and Sprint.

Paper

Some softness is still noted in some key sectors. $30/ton discounts are being reported in linerboard and heavy shading is being reported in market pulp. Uncoated white paper is not too strong either although prices here seem to have stabilized a bit as the import pace slackens a bit. There's also discounting in industrial tissue--and, on the east coast, in consumer tissue. A $29/ton boost is expected for newsprint, but it might not stick because of the competitive environment.

Zinc

Markets are firming—domestic metal now commands 2¢/lb more than it did a month ago and similar increases have been posted in die casting alloys. The European producer price is also up. Good demand is one factor behind the increase. But another could be Asarco's recent decision to quit the market. In any event, another 2¢/lb boost can't be ruled out for the next few months. No big jump is likely, as there's plenty of global capacity and U.S. consumption gains will be relatively modest (about 2-3%).

Semiconductors

Memory chips are tumbling. Spot sales of 64K dynamic RAMS, for example, are now going for as low as $1—half the quote of last October. Equally significant is that the more powerful 256K

Industrial price trends

Figure on continued small increases in industrial prices through 1985 and probably into 1986, says the latest Data Resources Inc. (DRI) quarterly *Cost Forecasting Service* report. Behind this optimism: (1) relatively modest demand gains of 3% at annual rate, (2) still-small wage hikes of 3.4% projected for this year and 4.5% projected for 1986, and (3) little or no energy inflation.

There does not seem to be a single major procurement area heading for double-digit advances. Projected increases for steel, industrial chemicals, construction materials, and machinery are pegged at 3% or less. And nonferrous metals could edge even lower.

While there could be some bigger hikes in individual items, things should remain under control through 1986. (See details for individual product lines in table.)

Price outlook in 1987
(Comparison of first quarter pricing)

Product	Percent change 85/84	86/85	87/86
Raw materials energy			
Industrial chemicals	−2.8	2.6	2.4
Miscellaneous chemicals	2.8	3.7	3.8
Pulp and paper	5.5	4.6	6.3
Intermediate supplies for manufacturing	3.0	4.4	5.4
Crude supplies	1.0	8.5	7.7
Middle distillates	−8.8	2.3	2.0
Metals			
Concrete rebars, carbon	4.4	7.1	5.3
Heavy structural shapes, carbon	2.5	4.3	9.0
Steel foundries	1.3	4.4	5.3
Lead, pig	−6.3	5.1	8.1
Zinc die casting alloy	−10.3	7.4	7.6
Copper & brass mill shapes	0.4	8.9	9.0
Components			
Tires	2.6	4.0	4.1
Hardware	2.7	3.5	4.2
Lighting fixtures	5.3	3.2	4.5
Valves & fittings	3.3	2.9	6.5
Abrasive products	2.0	3.9	4.4
Machine shop products	6.6	6.1	5.9
ICs (digital MOS)	−5.4	−1.5	−2.4
Construction items			
Plastic construction products	0.7	0.7	5.2
Insulation board	2.6	2.0	3.4
Structural metal products	3.5	4.4	7.6
Flat glass	−4.6	2.5	4.8
Concrete products	4.8	6.0	7.1
Machinery			
Heating equipment	4.2	4.5	5.1
Construction machinery	1.8	4.4	7.3
Material handling equipment	2.0	3.7	4.5
Motors & generators	2.0	6.0	7.7
Oil field equipment	0.8	2.9	6.1
Capacitors	1.7	2.1	6.8

Source: Data Resources Inc., Cost Forecasting Service

Electronic components

Overcapacity, high user inventories, and sluggish demand will put new downward pressure on semiconductor tags. Overall averages could fall as much as 8-10% this year—and maybe even further in the case of computer memory chips. Dynamic RAMs, for one, continue to come down—with 64Ks now going for around $2—about half last year's level. EEPROM quotes are also dropping. Declines of about 20% have been reported in some cases.

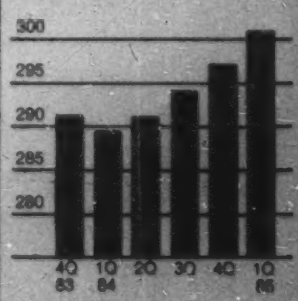
Aluminum

Prices are still soft and market ingot is still in the low 50¢/lb range. Adding to the downward pressure are low-priced imports. But things should begin to turn around by late spring as U.S. production cutbacks (mills are now operating at less than 75% of potential) are felt and demand picks up. On the latter score, all signs indicate a 4-5% consumption gain here in the U.S. Also firming prices: (1) falling inventories (global stocks could be off as much as 600,000 metric tons this year), and (2) cost pressures. Best bet: ingot tags should climb above 60¢/lb by summer and should remain there for the rest of the year.

Inorganic chemicals

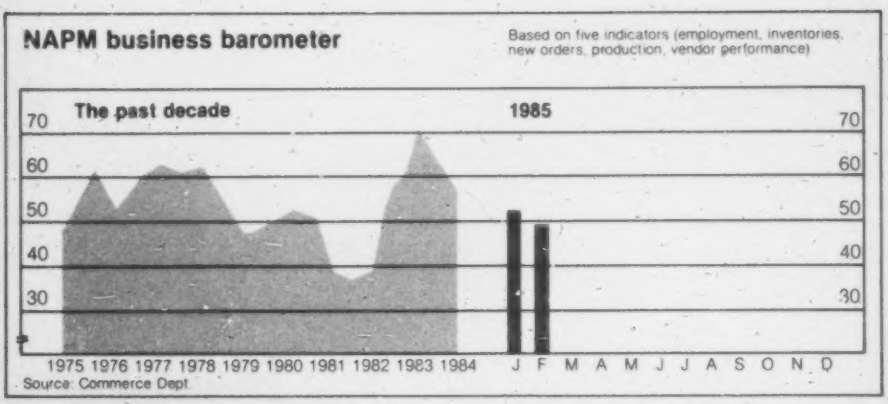
Modest increases are cropping up. Sulfur is being boosted $5/ton (to $162.50/ton, FOB Tampa)—an increase that could put new upward pressure on sulphuric acid and other key sulphur derivatives. Chlorine is also firming. Off-list prices are scheduled to rise another $10/ton. Potash is also likely to advance by about $10/ton into the $65-75/ton range this spring due to low consumer inventories and an expected 5-6% increase in 1985 global demand.

Inorganic chemical prices
(Index: 1987 = 100)



May Issue to Feature MRO

BUSINESS DATATRAK


NAPM business barometer
Based on five indicators (employment, inventories, new orders, production, vendor performance)
The past decade
1985
70
60
50
40
30
1975 1976 1977 1978 1979 1980 1981 1982 1983 1984
J F M A M J J A S O N D
Source: Commerce Dept

KEY ECONOMIC TRENDS

Doomsayers will have to wait, 1985 looks good

The year is beginning to look better and better.

While no one expects a repeat of last year's 6.8% real GNP advance, all signs point to continuing gains for the upcoming second quarter and probably for the rest of year.

A recent query of top economists reveals expectations of a 4.0% annual growth rate for the first half of the year and around a 3.0% rate for the July-December half. This averages out to 3.5% growth for the year.

Further confirmation of this advance rate comes from the big econometric models which are forecasting gains in the 2-4% range for 1985. The consensus is that there is enough momentum to keep business in the plus column for some time to come.

Leading economic barometers suggest the same. True, the NAPM barometer (see chart) is currently in the neutral 50 range, but talks with government economists who work up this figure indicate that this is probably a one month blip and that the second quarter readings will be moving back up into the mid-50s range.

More detailed barometers seem to support this view. Durable goods orders (see chart) remain on a high plateau, having recovered a bit from their recent pause with a 3% increase over fourth quarter 1984 averages.

And the capital goods sector of the durable orders may actually begin to rise because capital appropriations (leading indicator of machinery orders) are again in a rising trend. The latest quarterly total comes to near $29 billion—an advance of 5% over levels of three months ago.

Equally significant, this appropriations yardstick is expected to continue advancing. The Conference Board, compiler of this series, sees appropriations up another 7% this year—enough to generate a 34% increase in capital spending by the nation's 1,000 largest manufacturers.

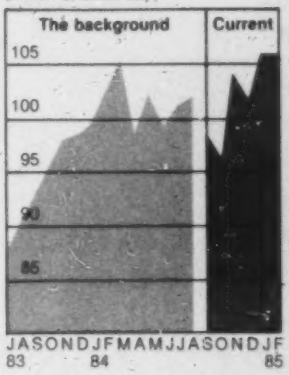
And it looks like the consumer sector of the economy will remain robust. Even though families are saving a bit more of their take-home pay these days (see chart), the percentage is not nearly as much as in 1981-82—and the income pie is a lot bigger than it was then.

As for consumer optimism, 8.8% of the households surveyed say they are planning on buying a car over the next six months—relatively unchanged from previous readings. And plans to buy major appliances are on the rise.

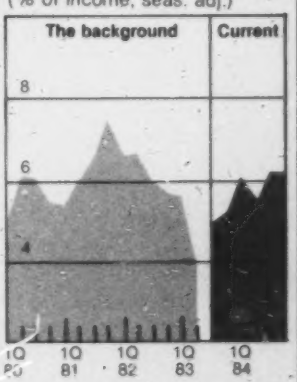
Even worries about construction are fading as building awards pick up (see chart) and mortgage rates edge lower. The latter has also been a major factor in increases in housing starts forecasts for 1985—from 1.6-1.7 mil-

Leading indicators

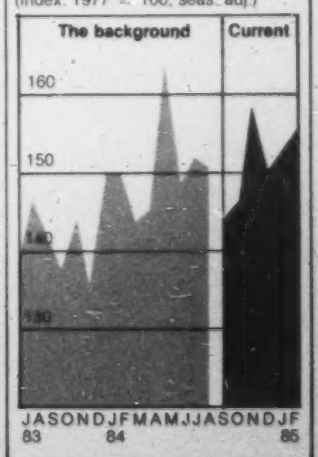
1. Durable goods orders
(Billion $, seas. adj.)



2. Savings rate
(% of income, seas. adj.)



3. Construction awards
(Index: 1977 = 100, seas. adj.)



lion units to 1.8 million now.

Finally, there is the surprisingly low level of inventories. Most key stocks-sales ratios are close to all-time lows, indicating that any additions to final demand won't be coming from shelves, but from increases in industrial production.

Car driving costs go up and up and up

Owning and operating a car doesn't come cheap these days.

A just-released study by Hertz shows that recent increases in sticker prices (up 9% for a typically equipped compact) and high interest rates have raised cents-per-mile costs an average of 5.5% above last year's levels.

Details for a 1984 model, purchased new and driven 10,000 miles a year for five years, are shown in the accompanying chart. The pertinent cents-per-mile figures: subcompact (36.6¢), compact (45.7¢), midsize (48.6¢), intermediate (50.2¢), and standard (59.8¢).

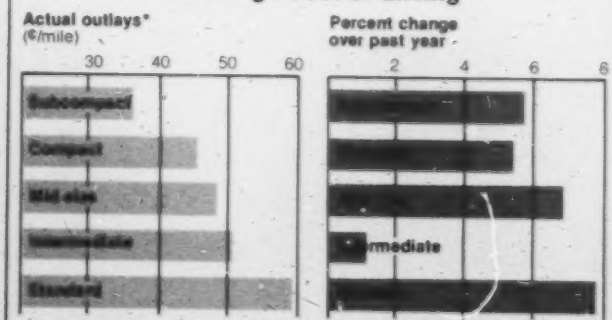
These estimates can, of course, change significantly according to the number of years the car is kept. Specifically, the longer the car is owned, the lower the cents-per-mile. Holding on to a car for ten years instead of five (driving 10,000 miles per year) can save anywhere from 16-25% off these overall costs.

Obviously, the more miles driven per year, the lower the cost per mile. For example, a car held for five years driven only 5,000 miles per year, averages out to 79.5¢ per mile, while the same car driven 20,000 miles a year averages out over five years at only 29.3¢ per mile.

Other key findings of the Hertz survey:

- New cars are kept an average of 5.2 years vs 3.6 years a decade ago.
- The average age of all cars in use today is 7.4 years vs 5.7 years a decade ago.
- Owning and operating a used car rather than a new one can save you anywhere from 20-50%.

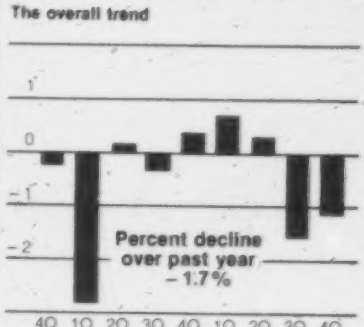
The high cost of driving



* Ownership and operating costs of a new car that is driven 10,000 miles per year and is held for five years.

Source: Hertz Corp.

Import tags drop again



The big bargains
(% change over past year)

Crude oil	-3.5
Nonferrous metals	-7.9
Textile Mchy.	-4.2
Metalwork. Mchy.	-6.1
Heating & cooling eqpt.	-5.6
Pumps & compressors	-5.4
Mech. handling eqpt.	-5.1
Bearings	-4.3
Office mchy.	-7.7
Electric mchy.	-9.8
Electronic compon.	-17.4
Scientific instru.	-4.8

Source: Bureau of Labor Statistics

Offshore bargains unabated

During the latest available quarter tags fell by 1%, nearly duplicating the decline in import prices in the previous quarter. The continuing strong dollar is, in part, responsible for the dips in offshore prices. Averages are now down 2% from year-ago levels. Some key industrial areas are even even lower (see chart for details).

Another significant contributor to this widening U.S.-overseas price gap is that comparable domestic product lines have been holding steady or even edging up a bit.

Here's a more detailed rundown of developments over the latest three-month period:

- **Crude materials:** Big declines were posted in crude rubber (7.6%), pulp and wastepaper (3.2%), metal ores (6.0%), and crude oil (2.9%).
- **Chemicals and related products:** Price averages were down for the third consecutive quarter—with hefty declines noted for fertilizers (5.7%), fats and oils (7.6%), and miscellaneous chemicals (2.5%).
- **Intermediate manufacturing products:** Nonferrous metals—off 3.2%—headed the trend toward lower tags, with additional downward pressure coming from leather, cork, wood, woven cotton fabrics, fasteners, and iron and steel.
- **Equipment:** Largest 3-month declines were in telecommunication equipment (2.5%), metalworking machinery (2.4%), office equipment (2.0%), and instruments (2.8%). But autos were up—reflecting year-end model changeovers.

CURRENT PRICES

Energy drops prices lower

Overall industrial producer prices continue to edge lower—aided in large part by new declines in energy.

The falloff in the last month was relatively small—only 2%, or 2.4% at annual rate. But this is extremely encouraging in

light of the fact that demand for most of the goods monitored continues to expand.

The latest drop in some specific areas in energy has been fairly substantial. Liquid petroleum, for example, is now at its lowest level since November 1979. Other declines over the last month were noted in gasoline, diesel fuel, residual fuel oil, lube oils, kerosene, and crude petroleum.

Some of these products are now significantly under where they were last year at this time. Examples: gasoline is off nearly 10% and lube oils dropped 3%.

The decline in basic petroleum could also be a major factor in the continued easiness in organic chemicals where averages fell by almost 1% in the last 30 days. This was more than enough to offset some edging up in inorganic chemicals (chlorine and sulphur), thus creating another decline in overall

This month's breakdown

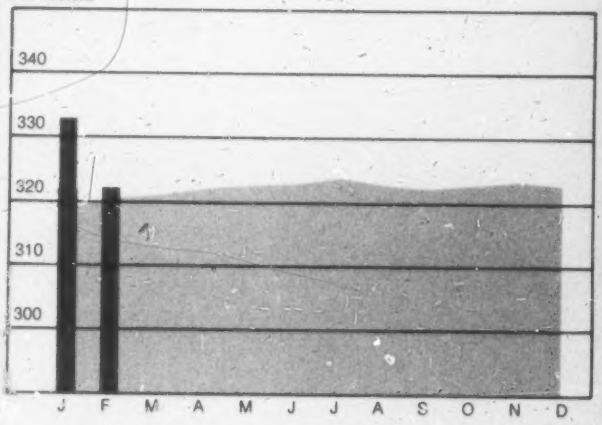
	Latest level (Feb.)	% change from: Month ago	Year ago
Bearings	346.0	0.1	2.9
Bolts, nuts, etc	278.9	−1.4	2.5
Chemicals, inorganic	300.9	0.5	4.6
Chemicals, organic	351.6	−0.9	−2.7
Concrete products	314.3	−0.2	2.7
Corrugated cartons	284.4	1.1	13.0
Cutting tools, small	285.7	−0.1	2.3
Electric lamps (bulbs)	342.8	0.9	3.2
Electronic components	198.6	0.4	4.3
Fans and blowers	357.4	0.1	4.6
Foundry and forge products	363.6	0.0	2.0
Fuel oil (residual)	1107.3	−1.8	1.3
Furniture, commercial	302.3	0.7	2.6
Gasoline	508.2	−4.3	−9.7
Glass, flat	220.9	0.0	−3.9
Glass containers	364.2	0.1	3.9
Gypsum products	330.2	0.5	−2.7
Hand tools	371.7	0.6	4.9
Hand tools, power driven	232.9	1.5	4.6
Industrial furnaces	382.4	0.2	3.2
Integrating and measuring instruments	231.4	0.7	2.0
Internal combustion engines	346.6	0.3	2.5
Lubricating oil	772.2	−2.7	−3.2
Lumber millwork	311.5	−0.3	0.9
Material handling equipment	292.9	0.2	1.9
Metal containers	358.3	0.2	3.9
Metal mill shapes (nonferrous)	315.0	0.7	−1.9
Metal tanks	305.6	0.3	0.3
Motors and generators	348.5	−0.1	3.2
Motor trucks	296.1	0.6	5.4
Office and store equipment	153.7	0.0	−0.1
Paperboard	287.7	−0.4	5.9
Paper boxes and shipping containers	276.7	1.2	8.6
Paper office supplies	243.4	−0.5	4.2
Paint	279.0	0.3	4.4
Plastic resins	306.8	1.3	0.6
Precision measuring tools	255.9	0.0	4.3
Pumps and compressors	353.1	0.0	1.8
Refractories	367.0	0.0	3.1
Rubber belts and belting	355.8	3.9	2.1
Scales and balances	230.1	−1.4	0.2
Steel products	364.4	−0.1	1.1
Switchgear	276.0	0.1	0.3
Textiles, synthetic fibers	157.7	0.1	−2.3
Textiles, gray fabrics	153.1	−0.3	0.2
Tires and tubes	240.8	−1.8	−1.2
Transformers and power regulators	233.1	1.4	4.5
Welding equipment	286.5	0.3	1.3
Wire and cable	204.3	1.5	0.9

Industrial prices

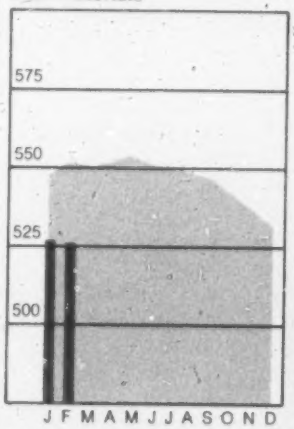
(Index: 1967 = 100)

1984 ■ 1985 ■

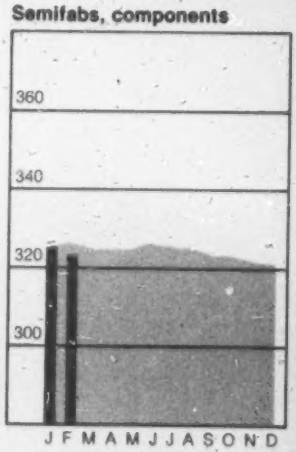
All items



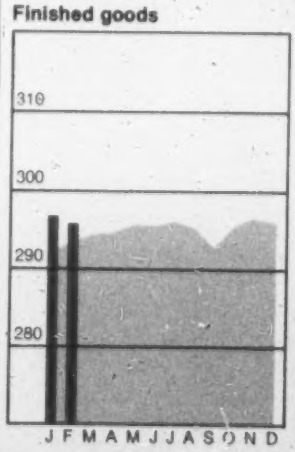
Raw materials



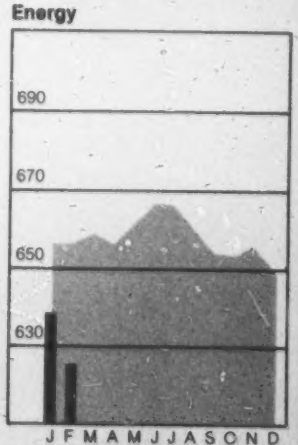
Semifabs, components



Finished goods



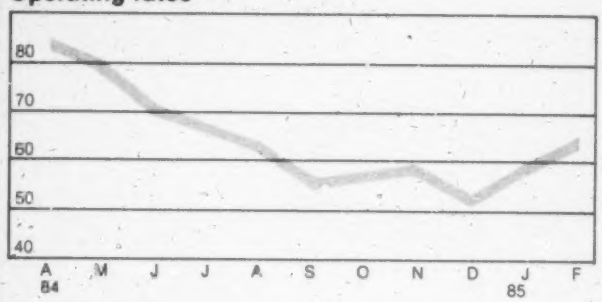
Energy



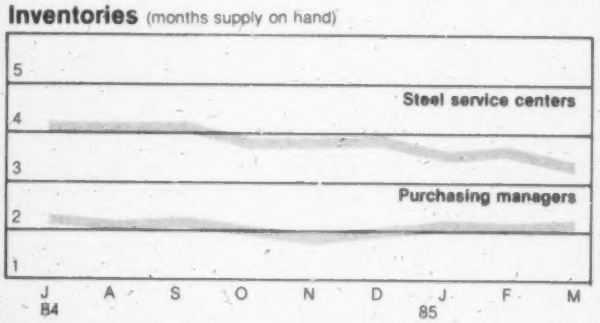
Source: Bureau of Labor Statistics

Steel

Operating rates

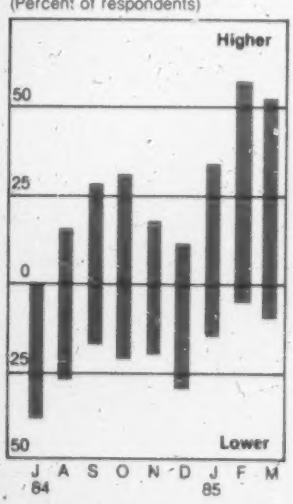


Inventories (months supply on hand)

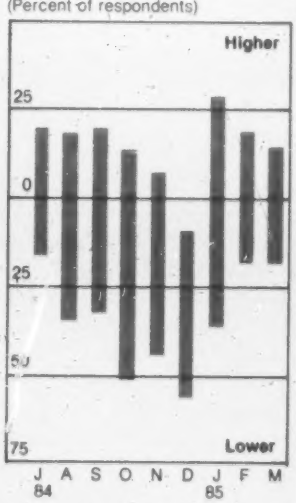


Demand

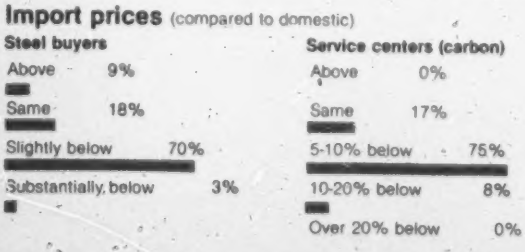
Service centers incoming orders
(Percent of respondents)



Steel buyer purchase
(Percent of respondents)



Import prices (compared to domestic)



Source: Steel Service Center Institute, NAPM Steel Buyers Committee

industrial chemicals.

Some softness was also noted in building materials, especially plywood, softwood lumber, plastic construction products, concrete products, and asphalt paving mixture. The same is true in other basic materials including lead, aluminum scrap, raw cotton, natural rubber, paper, paperboard, and inedible fats and oils.

The easiness also seems to be extending to some highly fabricated sectors, with declines noted in fasteners, tires and tubes, motor vehicle parts, and grey textile fabrics.

On the other hand, some uptick is noted in the capital goods sector, probably the result of a recent step up in equipment ordering. Small increases were noted in transformers, railroad equipment, food machinery, power driven hand tools, and instruments.

STEEL SCENE

JIT a hit with steel service centers

There is some difference of opinion as to where the steel market is heading over the next few months. Distributors responding to the latest Steel Service Center Institute (SSCI) survey, for example, feel some solid gains are likely. But buyers are basically neutral, seeing little overall change in the demands.

The service center optimism can best be appreciated by the fact that more than half of those queried see a pickup in incoming orders over the next three months—more than seven times the 7% who feel some slippage is likely.

Contrast the above to the latest NAPM buyer survey where the 15% plan to increase their steel orders is effectively offset by 18% who feel they will be buying less.

One reason for the more optimistic service center outlook could be the nation's increasing reliance on distributors to meet just-in-time inventory goals—a development which has tended to increase service centers' overall share of the market.

Most service centers are confident they'll break last year's shipment peak when they moved some 21 million tons. How much gain in 1985? Estimates vary, but they generally average out near 22 million tons.

Some other findings from these just-completed surveys:

■ **Inventories:** Steel service center month's supply has dropped a bit over the past month (see chart). Moreover, these sellers would like to see this ratio drop even further in the months immediately ahead. But given customer demand for quick deliveries, this seems little more than wishful thinking.

Buyers also seem interested in cutting back on stocks. So far, however, they have not been all that successful—with the supply figure hovering just around the 2-month mark for almost a year now.

But these buyers intend

to keep trying. Thus 41% of those queried say they will be attempting to cut steel inventories over the next six months.

■ **Availability:** Service centers see the situation as being easy over the next few months. The picture is much the same on the buyer level—with only scattered worries voiced.

■ **Imports:** Current high tonnage totals seem to indicate that service centers and buyers are taking advantage of overseas bargains. On the price front, for example, 73% of buyers say imports are under comparable domestic levels—with 3% saying the price advantage is substantial.

Service center figures are even more impressive. In both carbon and stainless more than four out of five respondents say foreign prices are lower—with 8% of those buying carbon steel and 42% of those buying stainless putting the price break in the 11-20% range.

But new import quotas could make it increasingly difficult to continue finding such bargains. Not surprising then, some 44% of the service centers anticipate a reduced dependency on imports over the next six months (vs only 4% who see increased dependency).

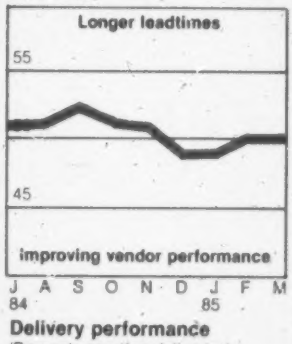
And on the buyer front the figures are almost as impressive—with 24% anticipating reduced dependency (vs only 9% planning on increasing imports).

In short, a significant shift in steel sourcing could well be in the making.

Monthly procurement status report

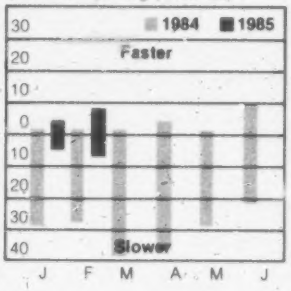
Leadtime index

A "diffusion" index based on 158 key commodities. Above "50" indicates a tendency for leadtimes to stretch out. Below "50" suggests improving vendor performance.

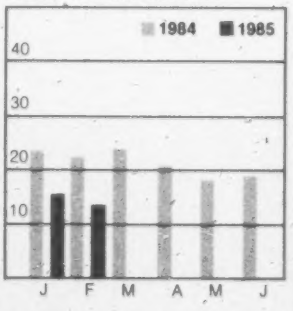


Delivery performance

(Percent reporting deliveries)

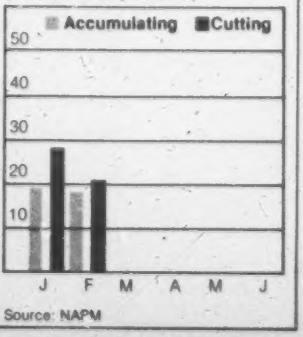


Forward commitments



Inventory strategy

(Percent of respondents)



Source: NAPM

PROCUREMENT STATUS

No problem gettin'; glut in electronics

Procurement headaches remain few and far between despite an economy that has been growing steadily for more than two years.

That seems to be the thinking of virtually all buyers. This continuing good news is attributable to a combination of factors: (1) still more-than-ample capacity, (2) growing imports which are adding to the overall supply base, and (3) better buyer-seller coordination.

Granted, there have been a few modest leadtime stretchouts. But, generally, they have been balanced out by shrinkages in other sectors. *PW*'s exclusive leadtime index (see chart) remains squarely anchored at the neutral 50 level.

And most purchasing executives queried in *PW*'s new procurement status survey see the same pattern persisting through spring and summer. Observes one PM, "There's absolutely nothing on the horizon to indicate any change. In fact, the few items that have been tight—namely electronic parts—are now a glut on the market."

The fact that vendors have been speeding deliveries is still further confirmation of this "no sweat" prognosis. According to tabulations by the NAPM Business Survey Committee, for example, more buyers are getting faster deliveries than are expecting slowdowns.

Also suggesting clear sailing is the fact that PMs, despite rising production schedules, are paring more than accumulating.

Recent easiness in the price sphere can also be traced back to the ample or more-than-ample supply situation. Here, too, the figures are impressive—the 18% reporting declines outnumbered those hit with increases by better than 2:1.

Perhaps the most noteworthy development this month is that there is now not one single item on the NAPM short-supply list.

Leadtimes and availability

Chicago: Coming in (weekly leads): resistors (8-12), integrated circuits (20-39), thermistors (8-12), chrome chemicals (1-5), wide coated steel sheet (7), special brass sheet (4-5). Moving out are PVC (6), c-r and narrow coated sheets (7), special copper sheet/tube (3-4).

Cleveland: Coil coating paint is in (to 4-5). Other weekly leads: 2-ply fiber drums (2), corrugated boxes (3), folding boxes (4), polyethylene and PVC (3-4), cold-finished aluminum (10-12), lumber (3), skids (3), plastic packaging material (2-3), alloying material (on demand).

Los Angeles: Copper tubing is out (to 6-8). So are custom storage tanks (6-8), electro-mechanical components (6-8). In are grey iron castings (4-6), brass castings (8-10), aluminum pipe (12), heavy duty electronics (26-52), galvanized steel (12-14), domestic fasteners (4-6).

BUSINESS DATATRAK

Houston: Pumps are in (to 5-9 months). Alloy carbon steel heat exchangers are out to 4-6 months. Other weekly leads: High-density polyethylene (2-3), polypropylene (2-3), corrugated (2), galvanized steel coils (10), stainless fasteners (8-10), plastic bottles (4).

Philadelphia: Connector leads are in (10-12). Other leads: relays (6-10), fractional hp motors (10-14), switches (6-10), rechargeable batteries (2-8), file effect transistors (8-10), large scale ICs (14-16), LTL ICs (14-16), multi-conductor cable (8-10), CMOS ICs (16-18), wirebound resistors (8).

Pittsburgh: Silicon is in (2 weeks)—to levels of most alloying materials. Other typical leads (in weeks): mill quantities of fabricated copper (6), polyethylene (5), PVC (6), corrugated and folding boxes (3-4), drums (1), paint (4-5), steel strapping (2-3), painted seals (6-8).

Leadtimes (in weeks)

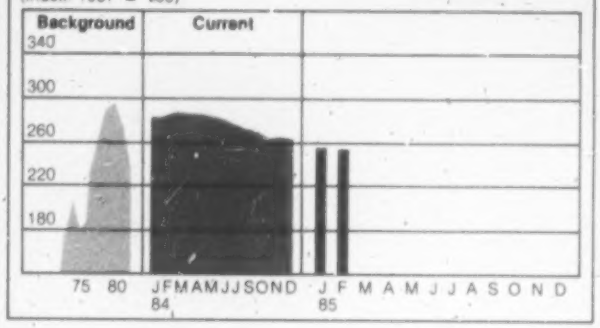
	Now	Month ago	Six months ago
STEEL			
Sheet (Phil)	4½	4½	9
C-R Sheet (Chgo)	7	6	5
Plate (Phil)	3½	3½	10
Plate (Chgo)	2½	2½	2½
Reinforced (Hous)	6	6	6
H-R Bars (Phil)	7	7	7
H-R Bars (Chgo)	3	3	3
Cold-Drawn Bars (Phil)	7	7	7
Galvanized (LA)	13	14	14
Galvanized (Chgo)	7	6	10
Structurals (Chgo)	4½	4½	3½
Structurals (Hous)	17	17	17
Tubing (Phil)	7	7	7
Grey Iron Castings (LA)	5	7½	5
Steel Castings (Hous)	11½	11½	11½
Forgings (Hous)	6	6	6
Pipe, Carbon (Hous)	13	13	13
ELECTRIC & ELECTRONIC			
Cables (Chgo)	8½	8½	8½
Capacitors (Chgo)	13	13	17
Circuit Breakers (Chgo)	6	6	6
Electromech. Devices (LA)	7	7	7
ICs (Linear) (Phil)	15	17	20
Motors (Phil)	12	15	15
Motors, 1000 hp & Up (Hous)	39	39	39
Printed Circuit Boards (Chgo)	10	10	20
Relays (Chgo)	15	15	15
Resistors (Chgo)	10	12	14
Resistors, Wirebound (Phil)	8	10	10
Transformers (Chgo)	10	10	10
LUMBER			
Hardwood (Pgh)	3	3	3
Hardwood (Clev)	3½	3½	3½
Plywood (Chgo)	2	2	2
Plywood (Phil)	1½	1½	1½
Softwood (Clev)	3	3	3
Softwood (Phil)	⅓	⅓	⅓
Softwood (Pgh)	3	3	3
Particleboard (Phil)	2½	2½	2½
CHEMICALS-PLASTICS			
Adhesives (LA)	½	½	½
Napthalene (Chgo)	2	2	2
Paint (LA)	4	5	5
Paint, Coil Coating (Pgh)	4	4	4
Paint, Maint. (Cleve)	3	3	3½
Polyester Resin (LA)	2	2	2
Polyethylene Resin (Cleve)	3	3	3
Polyethylene Resin (Pgh)	4	4	4
PVC Resin (Chgo)	6	6	1
PVC Resin (Pgh)	6	6	6
Titanium Dioxide (LA)	1	1	1
PACKAGING			
Bags, Kraft (Pgh)	5	5	5
Bags, Multiwall (Clev)	9	9	9
Bags, Multiwall (Pgh)	6	6	6
Cartons, Corrugated (Cleve)	3	3	3
Cartons, Corrugated (Hous)	3	3	3
Cartons, Folding (Phil)	6½	6½	6½
Cartons, Folding (Pgh)	3½	3½	3½
Cellophane Wrap (Phil)	5	5	5
Plastic Bags (Pgh)	3½	3½	3½
Plastic Pkg. (Pgh)	3	3	3
Shrink Film (Chgo)	6	6	4
Shrink Film (Clev)	3	3	3
Drums, Fiber (Pgh)	1	1	1
Drums, Steel, Std. (Pgh)	1	1	1
Wood Pallets (Chgo)	2½	2½	2½
Wirebound Boxes (Pgh)	4½	4½	4½
Strapping (Clev)	2½	2½	2½
Strapping (Pgh)	3	3	3
PAPER			
Fiberboard (Clev)	3½	3½	3½
Glassine (Clev)	4½	4½	4½
Glassine (Pgh)	5½	5½	5½
Groundwood (Clev)	4½	4½	4½
Groundwood (Pgh)	7	7	7
Kraft (Clev)	1	1	1
Kraft, Bleached (Clev)	1	1	1
Kraft, Bleached (Pgh)	5	5	5
Kraft, Natural MFNS (Clev)	1	1	1
Laminated (Clev)	8	8	8
Tissue (Pgh)	5½	5½	5½
NON FERROUS			
Aluminum Coil (Chgo)	11	11	11
Aluminum Plate (Chgo)	12	12	14
Aluminum Sheet (LA)	4½	4½	4½
Aluminum Sheet (Chgo)	11	11	11
Brass Castings (LA)	6	9	7
Brass Rods (Chgo)	4	4	6
Brass Sheet (Chgo)	4½	7	9
Brass Tube (Chgo)	6½	6½	5
Copper Fittings (LA)	3½	3½	3½
Copper Mill Prod. (Pgh)	6	6	6
Copper Tube (LA)	7	5½	5½
Copper Tube (Phil)	6	6	6
Lead (Pgh)	2	2	2
Magnesium (Pgh)	2	2	4
Manganese (Clev)	1	1	1
Nickel (Clev)	1	1	1
Nickel (Pgh)	2	2	2
Silicon (Clev)	1	1	1
Tin (Pgh)	3	3	3
Wire, Specialty (LA)	5	5	5
Zinc (Pgh)	2	2	2
MISCELLANEOUS			
Bearings, Domestic (Phil)	22	22	22
Bearings, Foreign (Phil)	26	26	26
Boilers & Furnaces (Hous)	35	35	35
Compressors, Centrifugal (Hous)	50	50	50
Compressors, Reciproc. (Hous)	39	39	39
Fasteners (Chgo)	1½	1½	1½
Fasteners (LA)	5	7	7
Fasteners, Std. (Phil)	4	4	2½
Heat Exchangers, Carbon-alloy Steel (Hous)	21	20	20
Heat Exchangers, Hi-pressure (Hous)	31	31	35
Insulation Mat'l. (LA)	7	7	7
Machined Parts (Hous)	9	9	9
Pipes & Valves (Chgo)	2½	2½	2
Pumps (Hous)	30	35	35
Pumps (LA)	9	9	9
Rubber, Synthetic (LA)	2	2	2
Rubber Hose (LA)	4	4	4
Tungsten Carbide Parts (Hous)	15	15	15
Valves, Cast Steel (Hous)	17	17	17
Welding Supplies (Hous)	5	5	5

BUSINESS DATATRAK

Raw material price barometer

(Index: 1967 = 100)

Latest month	254.0
Month before	255.8
Year ago	283.6

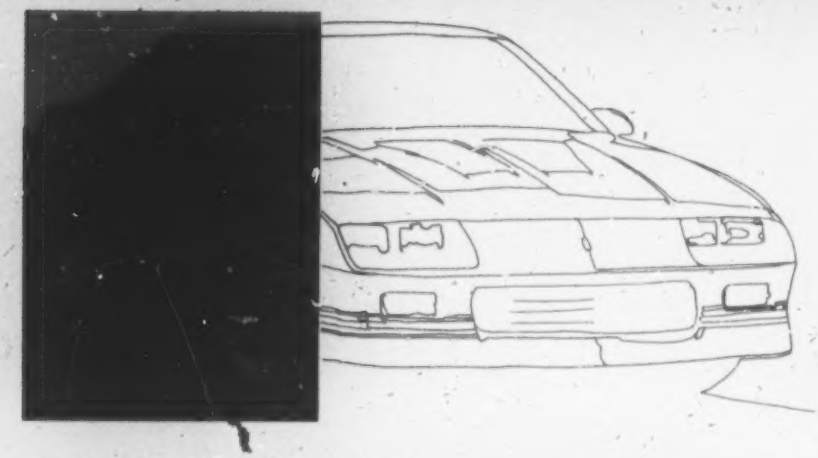


Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	347.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	25.10	25.10	24.40
Steel, bars, dlvd. Phila., cwt., merchant quality	23.95	23.95	17.50
Steel, bars, Pitts., cwt.	23.95	23.95	17.50
Steel, bars, C.R., Pitts., cwt.	29.25	29.25	26.00
Steel, plates, Pitts., cwt.	23.95	23.25	23.25
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	23.25
Steel, sheets, C.R., Detroit, cwt.	27.10	27.10	27.10
Steel, strip, C.R., Chi., cwt.	35.30	35.30	35.30
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	0.513	0.510	0.715
Antimony, in alloy, lb.	2.00	2.00	2.00
Beryllium-copper, cost ingot, lb.	5.35	5.35	5.20
Brass, red, 85%, [sheet], lb.	1.27	1.28	1.25
Brass, yellow, [sheet], lb.	1.22	1.23	1.20
Cadmium, ton lots, lb.	1.25	1.25	1.50
Copper, electrolytic, wire bars, refd., lb.	0.64	0.65	0.70
Copper, sheet, over 24 in., lb.	1.36	1.37	1.34
Lead, common, N.Y., lb.	0.17	0.19	0.24
Magnesium, pig ingot, [99.8%], lb.	1.48	1.48	1.43
Mercury, 20 fl. lots, N.Y., fl.	304.00	310.00	300.00
Molybdenum Climax Oxide/bags, lb.	4.65	4.65	4.65
Nickel, electrolytic, producer, lb.	3.20	3.20	3.20
Platinum, producer, oz.	475.00	475.00	475.00
Silver, N.Y., oz.	5.75	6.10	9.82
Tin, Straights, N.Y., lb.	5.60	5.65	6.45
Zinc, Prime West, East St. Louis, lb.	0.45	0.43	0.51
Zinc, die casting alloy, No. 3, lb.	0.515	0.495	0.575
PAPER			
Uncoated book #3 offset, ton	850.00	850.00	810.00
Watermarked bond, ton	985.00	985.00	985.00
Gummed sealing tape, carton	16.25	16.25	15.45
Boxboard, mach. clay ctd. recycled sheets 80 bright, .016, ton	495.00	495.00	475.00
Wrapping paper, std. distributor cost, kraft, basis wt. 50 lb., roll	28.00	28.00	28.00
Kraft linerboard, 42 lb., unbleached, ton	320.00	320.00	320.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	0.361	0.383	0.306
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.03	1.03	1.03
Cotton middling, 1", N.Y., lb.	0.620	0.598	0.733
Printcloth, 48", 80x80, N.Y., spot, yd.	0.68	0.71	0.80
Army duck, 37", 13 oz., yd.	1.96	1.96	1.79
Blended printcloth, 64", 78x54, yd.	0.740	0.740	0.725
20s combed yarns	1.95	2.12	2.14
Wool tops, N.Y., lb.	3.60	3.60	3.60

	Latest price	Previous month	Year ago
CHEMICALS			
Acrylonitrile, tanks, lb.	0.455	0.455	0.430
Ammonia, anhydrous, fertilizer, wholesale, tanks, ton	210.00	210.00	210.00
Benzene, petroleum, tanks, Houston, gal.	1.23	1.17	1.43
Caustic soda, 76% solid, drums, carlots, cwt.	26.00	26.00	26.00
Cresylic acid [over 25%], tanks, lb.	0.58	0.58	0.58
Formaldehyde, USP, 37% [12% to 15% meth.], tanks, lb.	0.106	0.106	0.106
Glycerine, synthetic, tanks, lb.	0.86	0.86	0.81
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	0.54	0.54	0.45
Naphthalene, crude, tanks, lb.	0.22	0.22	0.22
Phthalic anhydride, tanks, lb.	0.305	0.305	0.305
Polyethylene resin, low density liner film grade (market price), lb.	0.28	0.29	0.42
Polypropylene, homopolymer grade (market price), lb.	0.33	0.34	0.40
Polystyrene, general purpose grade (market price) lb.	0.34	0.35	0.42
Shellac, bone dry, N.Y., lb.	1.65	1.65	1.65
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	0.26	0.35	0.35
Sulphur, crude, ex-terminal, Tampa, Fla., lt.	162.50	162.50	140.00
Sulphuric acid, 66%, commercial, tanks, ton	56.85	56.85	56.35
Titanium dioxide, anatase, reg., carlots lb.	0.69	0.69	0.69
Xylene tanks, gal.	1.26	1.26	1.35
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	303.15	301.70	316.85
Lumber, 2x2, pine, mbf, cl	301.70	300.40	315.30
Plywood, plyform, ¾", msf, cl	569.65	563.00	562.05
Plywood, ⅜", msf, cl	375.35	375.10	364.10
Cement, bulk, ton, tl	64.46	64.46	62.44
Sand, ton, cl	6.20	6.20	6.13
Ready-mix concrete, 3,000 psi/cu.yd., 15 cu. yd.	47.56	47.66	45.47
Crushed stone, 1½", ton, cl	7.52	7.52	7.87
Concrete blocks, sand/gravel, 8"x8"x16", ea., tl	0.79	0.79	0.76
Gypsum sheathing, ½"x1"x8", msf, tl	206.69	205.44	199.34
Brick, common, per thousand, tl	179.89	179.15	172.78
Asphalt paving, AC-20	174.64	173.17	163.54
Concrete sewer pipe, 12", prem. joint, per foot, cl	7.19	6.97	6.79
FUELS			
Fuel oil, No. 6 or Bunker C, Gulf., bbl.	25.50	26.25	24.75
Fuel oil, No. 6 or Bunker C, N.Y., barge, bbl., reseller	31.25	31.00	32.15
Gasoline, 91 oct., reg., Los Angeles, rack, gal.	0.785	0.725	0.790
Gasoline, 94 oct., reg., Chi., tank car, gal.	0.740	0.699	0.805
Heating oil, No. 2, Chi., bulk, gal.	0.730	0.730	0.789
Heating oil, No. 2, N.Y., bulk, gal.	0.808	0.808	0.838
Heavy fuel, PS 400, Los Angeles, rack, bbl.	26.50	26.50	26.25
Jet kerosene, gal.	0.748	0.770	0.795
LP-Gas, propane, Okla., tank cars, gal. [incl. discount]	0.365	0.388	0.440
SCRAP MATERIALS			
Steel, No. 1, hvy., dlvd., Pitts., ton	92.00	87.00	100.00
Steel, No. 1, hvy., dlvd., Chi., ton	84.00	81.00	88.00
Copper, No. 1, East, wholesale buy, dlvd., lb.	0.545	0.560	0.625
Copper, No. 2, East, wholesale buy,	0.460	0.475	0.530
Brass, red, East, wholesale buy, dlvd., lb.	0.505	0.520	0.585
Brass, yellow, East, wholesale buy, dlvd., lb.	0.340	0.340	0.383
Alum., old sheet/cast, E., wholesale buy, dlvd., lb.	0.340	0.335	0.495
Alum., mixed clip., E., wholesale buy, dlvd., lb.	0.360	0.350	0.510
Zinc, old, East, wholesale buy, dlvd., lb.	0.140	0.140	0.185
Lead, clean solids, East, wholesale buy, dlvd., lb.	0.090	0.110	0.140
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	20.00	15.00	30.00
Paper, old corrug. box, dlr., N.Y., ton	10.00	10.00	27.00
Osnaburg cuttings, dlr., f.o.b. N.Y., lb.	0.12	0.12	0.13
White wipers, No. 1, dlr. buy, f.o.b. N.Y., lb.	0.30	0.34	0.34

[Sources: Metals Week, Engineering News-Record (20-city averages), Platt's Oilgram Price Service.]



Quality tops list on survey of automotive purchasing

Here's the latest thinking of automotive buyers according to Ward's Auto World, a sister publication of PurchasingWorld magazine. Quality, a shrinking domestic supplier base, more single sourcing, more sourcing from abroad, and longer term commitments highlight responses of purchasing pros at the auto companies.

Jon Lowell, senior editor,
Ward's Auto World

It's one thing to write a song—quite another to get the choir to sing it. But results of *Wards Auto World's* survey of auto-company purchasing managers suggests that, if quality is the industry's national anthem, the people who buy the bits and pieces that make up the cars are standing at attention and singing at the top of their lungs.

Belting out the tune composed by their chief executives during the 1979-82 recession, no less than 81% of those surveyed list quality as priority No. 1 in the buying they do for their companies. Price, not so long ago the principal allegiance of buyers across the land, now is most important only to a tepid 7%.

"One word can sum up the direction of the auto industry and its suppliers—*quality,*" says senior buyer Thomas E. Wieczorek of General Motors Corp.'s Buick-Oldsmobile-Cadillac Group. "Suppliers are being involved earlier, and specifications mirror the functionality of the part. Buyers are becoming very technically oriented. Bottom line buying dollars will become a thing of the past. Again, in one word, quality."

Plenty of agreement among PMs

Overall, the responses to *WAW*'s survey depict a fairly healthy environment—general agreement on the problems and goals for purchasing people and, at least in the broadest sense, agreement on the direction the industry is headed.

More than 100 auto-industry purchasing people, representing U.S.-headquartered manufacturers and American operations of foreign automakers, responded to the survey. Comments could be labeled on or off the record; some respondents returned their forms without divulging their employer's name. There was ample opportunity, in short, for candor.

Stated simply, people connected to automotive purchasing organizations expect to deal with far fewer suppliers. And they predict that those vendors who remain will enjoy longer-term contracts and will increase their deliveries of products from non-U.S. sources.

That's not to say the relationships won't remain at arm's length. "They (suppliers) have got to be good," says one purchasing-group controller. "Burn me once, (and) they're gone."

Trailing behind high quality and competitive price among prerequisites for suppliers to win business are use of statistical process control (SPC) (the #1 priority of 4%), engineering support (3%), innovative or proprietary technology (3%), yearly productivity gains (0.9%), and just-in-time delivery (0.9%).

Weighting the votes to reflect the overall rank of each buying criterion (see chart), quality remains on top with 23.1%, followed by price (15.5%), SPC (14.1%), engineering support (12.9%), just-in-time delivery (11.8%), yearly productivity gains (11.3%), and innovative or proprietary technology (10.1%).

Purchasing is more sophisticated

It's a given in the minds of practically everyone surveyed that the role of purchasing executives has evolved into something more complex and sophisticated than it was during the era of simply shopping for the lowest possible price. But opinions differ over whether auto companies are in this for the long haul or simply for a few laps around the track.

Industry purchasers seem convinced the changes will endure; fully 92% say so. But a less overwhelming majority (72%) think their suppliers feel the same way. "(There are) still too many glad-handers with minimum technical knowledge," writes an American Motors Corp. purchaser. A Ford Motor Co. buyer complains of "all new people in areas they aren't accustomed to."

Nonetheless, two-thirds of respondents say the quality of vendor

...continued

salesmanship is improving. Given marketplace demands, one GM buyer notes, a company hoping to remain on the shrinking list of suppliers must field better-trained salespeople.

Confirming that the supplier shakeout will continue, a whopping 93% predict some reduction in the automotive-vendor base. In fact, 65% of those surveyed expect supplier ranks to fall 15-30% by 1990. "I think some suppliers have the message, but others have a long way to go," sighs a Ford purchaser.

Not only will the number of suppliers shrink, but fewer of them will be American, poll participants say. No less than 80% expect foreign sourcing to increase during the next five years; only 4% anticipate a decrease.

Japan tops list

In the collective mind of *WAW* respondents, Japan will be the leading source of imported components for U.S.-assembled vehicles five years from now. The weighted survey results list Mexico second, Canada third, West Germany fourth, South Korea—a negligible source today—fifth, South America sixth, France seventh, and Great Britain eighth. The tally of first-place votes is similar, with Japan the pick of 47%, Canada (at 26%) and Mexico (at 16%) trading places, and the other regions at 3% each or less (no one lists Great Britain No. 1).

"The source of automotive materials will depend on the relative attractiveness—quality, cost, delivery, innovation—of a U.S. company's products," suggests a Ford procurement supervisor.

A production control coordinator at GM's Oldsmobile Div. accepts the need for increased outsourcing, even though it concerns him. "I don't like it, but increased technology demands it," observes David M. Ording.

New suppliers' chances good

One clear message of the 1985 *WAW* purchasing survey is that auto companies have thrown their doors wide open to suppliers with a better mousetrap.

Asked whether his or her company now is more likely to consider awarding business to independent suppliers than it was a few years ago, 75% say yes. More than one off-the-record comment suggests that careers now are being built around finding new ways to meet changing supply demands.

GM's Mr. Ording says that, presented the opportunity, he would "give suppliers twice as much responsibility as they (have) now."

But his opinion isn't universal. A Ford purchasing specialist flatly says no when asked the same question. "As much as possible," he explains, "we prefer to exert optimum control over production."

The closest thing to a debate in the survey arises from questions about inventory-reducing, quality-enhancing just-in-time parts delivery.

Some 75% of those polled call just-in-time a practical way to operate an American auto plant. But opinion is split almost evenly (47% yes, 53% no) on whether foreign sourcing conflicts with just-in-time.

"Just-in-time is impossible from foreign sources; it's not dependable," declares a GM purchasing executive. Not so, argues Ford Buyer J.D. Panning: "Foreign sources operate local warehouses."

The crunch American manufacturers and their suppliers find themselves in amid escalating quality-

Q&A with automotive buyers

Here's how the auto pros answered the Ward's Auto World survey.

1. Please rank in order of importance (1 being the highest) what suppliers need these days to win business at your company:

Category	1st choice	Wgted for all	Rank
Quality parts	81%	23.1%	1
Low price	7%	15.5%	2
Statistical process control	4%	14.1%	3
Engineering support	3%	12.9%	4
JIT delivery	0.9%	11.8%	5
Yearly prod. gains	0.9%	11.3%	6
Innovative and/or proprietary technology	3%	10.1%	7
Other	—	1.2%	8

From what you have seen, do suppliers think these changes are:
Permanent (72%), Temporary (15%), Don't know (13%)

Do you think these changes are:
Permanent (92%), Temporary (6%), Don't know (2%)

2. By 1990 there will be ( ) suppliers to the U.S. auto industry:
More (7%), Fewer (90%), Same (3%)

Percentage change you predict:

5% more—1%	5% fewer— 1%	25% fewer—18%
10% more—2%	10% fewer—13%	30% fewer—11%
15% more—2%	15% fewer—10%	40% fewer— 5%
30% more—2%	20% fewer—26%	50% fewer— 8%

3. Is the overall quality of vendor salesmanship (i.e. product knowledge, service, etc.)
Improving (64%), Declining (10%), Not changing (26%)

4. Purchases of components from overseas during the next five years will:
Increase (80%), Decrease (4%), Hold steady (16%)

5. How will these countries or regions rank (#1 highest) five years from now as foreign sources of components for U.S.-built cars?

Country	1st choice	Wgted for all	Rank
Japan	47%	21.3%	1
Mexico	16%	17.7%	2
Canada	26%	17.1%	3
W. Germany	3%	12.3%	4
S. Korea	3%	11.2%	5
S. America	3%	8.1%	6
France	1%	6.4%	7
Great Britain	0%	5.8%	8

6. Are you more likely than you were a few years ago to look beyond your company's in-

and-cost pressures—unlikely to ebb with the April 1 lifting of Japanese car-import quotas—obviously has encouraged a tighter, more closely woven relationship.

On the plus side, auto company buyers say their firms are offering vendor training programs (75%), making on-site inspections of supplier plants (97%), doing more single sourcing (91%), divulging product plans to vendors earlier (91%), and granting more long-term contracts (89%).

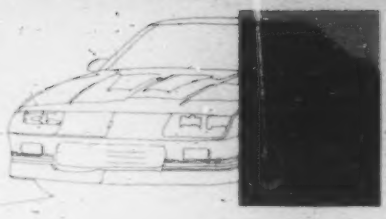
But company purchasing executives also have their own wish list in dealing with suppliers.

Some 31% would like more engineering technical support from their vendors, 28% want supplier help in the area of electronics and 16% would entertain input on plastics, 14% on other lightweight materials and 8% on engine components.

PMs doing o.k.

Life in the purchasing trenches these days seems to be a heady brew of the old and the new, but most folks seem to be having a reasonably good time.

Nearly 90% of respondents say they'd recommend purchasing as a career and 84% consider effective company policies in areas such as re-



stricting acceptance of entertainment and other perks.

Then too, the rule book apparently remains a living document. A tidy 78% say they occasionally must bend company rules on purchasing procedures, and 15% say rule-bending is a routine fact of life.

Of course, everyone has a harder time dealing with some people than others. *WAW* asked purchasers which organizations within their own company make life most difficult. Not surprisingly, engineers emerge as the hands-down rating winner with 45% of the votes. The manufacturing side follows at 20%, with finance trailing at 16%.

And despite a gaggle of speeches by top auto industry executives, the people in purchasing seem unsure whether top management is listening when they make suggestions.

"Sometimes they listen"

Asked whether their ideas for substantive change in purchasing procedures get serious attention by higher levels of management, the people polled return a lukewarm 57% "sometimes," compared to 38 percent "always" and 5% "never."

The good news seems obvious: Automakers are taking the purchasing arms of the business more seriously. The best and the brightest in the calling believe they're getting an earlier and more effective voice in decision making.

Consider:

- 86% of respondents say they have more input in their products than before.
- 87% say that they are getting more support from higher levels of management.
- 95% believe they will be rewarded for increased knowledge in areas such as just-in-time, SPC, and other aspects of component strategy.

PW

WAW Editorial Assistant Karey McCann assisted with this story. *PurchasingWorld provided assistance with the survey questionnaire.*

house operations and consider independent suppliers as sources of materials and components? Yes (75%), No (10%), No change (15%)

7. **Is just-in-time a practical way to operate a U.S. auto plant?** Yes (79%), No (21%)

8. **Does foreign sourcing conflict with your company's implementation of just-in-time?** Yes (47%), No (53%)

9. **In which areas do you see a greater need for products or services from independent suppliers than they now provide?** Engineering technical support (31%) Electronics (28%)
Plastics (16%) Other lightweight materials (14%) Engine components (8%) Other (3%)

10. **As your relations with suppliers become closer, you are:**
Offering vendor training programs: Yes (75%) No (25%)
Making on-site inspections of supplier plants: Yes (97%) No (3%)
Doing more single sourcing: Yes (91%) No (9%)
Divulging product plans to vendors earlier: Yes (87%) No (13%)
Granting more long-term contracts: Yes (89%) No (11%)

11. **On balance, from a purchasing perspective, are long-term contracts beneficial?** Yes (92%) No (8%)
How about single sourcing, is it beneficial all things considered? Yes (87%) No (13%)

12. **Purchasers have historically been charged with buying what engineers and others order at the lowest price. How is that changing?**
More purchasing input in total product Yes (86%) No (14%)
More support from management Yes (87%) No (13%)
Increasing knowledge required about overall component strategy (e.g. SPC, JIT etc.) Yes (95%) No (5%)

13. **If you proposed substantive changes in the way your company buys what it needs, would you get management's attention?** Always (38%), Never (5%), Sometimes (57%)

14. **Are you comfortable with policies and procedures you work under?** Yes (70%) No (30%)

15. **Does your company prohibit employees from accepting entertainment and other perks from suppliers?** Yes (72%) No (28%)
If so, is the policy working? Yes (84%) No (16%)

16. **Knowing the changes taking place in purchasing, would you recommend it as a career?** Yes (89%) No (11%)

17. **Which part of your company gives you the most headaches?**
Engineering (45%), Manufacturing (20%), Finance (16%), Other (12%), Marketing (7%)

Footnote: For questions 1 and 6, the following process was followed: Respondents were asked to rank from 1 to 8 their choices. The first column, "1st choice" lists the percentage of respondents that gave it the top priority. The second column, "weighted for all," weights the responses with 8 points for a No. 1 to one point for a No. 8. By adding up the points for each response category and dividing by the total number of points, a percentage of the whole was calculated. The third column, "rank" reflects the ranks based on the figures in column 2.

PMs see price discounting continuing

The nation may be in its third straight year of uptrend, but you would never know it from some of the price deals available these days.

Just how soft tags are is indicated by a new *PurchasingWorld* survey of price discounting which suggests that industrial quotes in many cases are little more than starting points for serious negotiations.

And the overwhelming majority of PMs surveyed expect things to remain this way. Nearly three out of four see the current buyers' market holding for at least another 12 months.

Some of the more specific findings of the just-completed *PW* price survey:

- **Current shading:** An impressive 72% of the respondents say they are getting "buys" on at least some of their purchase mix. And 50% note that about half the items they purchase are available at off-list levels.
- **Now vs a year ago:** There has been a slight tendency toward reduced discounts. But the accent should be on the word "slight" because counterbalancing the 43% who note somewhat fewer bargains are the 42% who have experienced no change and the 15% who say they are actually doing better than they were a year ago.
- **Weakest areas:** Product lines subject to considerable shading are said to include most carbon steel shapes (sheet, plate, bar and tubing, etc.), stainless steel, alloy steel, castings, forgings, bearings, aluminum, tooling, plastic resins, solvents, plasticizers, petrochemicals, semiconductors, fasteners, motors, magnet wire, grey goods, lumber, abrasives, petroleum-based products, and some MRO items.
- **Reasons for the shading:** Foreign competition is the key factor noted—with 54% of the respondents naming imports a prime cause for the softness. Other factors noted prominently include excess supplies, less-than-expected demand, hard-nosed bargaining, lack of cost justification.
- **Type of concession:** No single ploy dominates, but the key ones are (with the percentage of PMs citing each as a major factor): extended price guarantees (58%), cash discounts (38%), better terms of sale (38%), freight absorption (27%), throwing in of extras (19%), and improved level of services (15%).
- **The net impact:** The average discount off lists varies with the type of purchase mix. Firms heavily involved in steel and other basic raw materials are doing best, often getting 10% or more under list. Also worth noting is that more than two out of five respondents report discounts averaging in the 5-8% range and nearly three out of four getting at least 5% off.

Factors holding the line

The reasons for expectations for continued easy market are basically the same as the ones that are behind current discounting—market imbalances, continued heavy imports, and hard-nosed bargaining sparked by the inability of PMs' own firms to raise prices.

Observes one Ohio-based purchasing executive, "I see nothing on the horizon to change the current trend; supplies remain more than ample, competition is keen, and a strong dollar is helping to keep import prices down."

One PM, however, is a little leery—doubting that the import factor will remain as strong as it has been. He feels that new trade curbs (such as those on steel and textiles), plus a possible decline in the value of the dollar, could combine to make bargains a bit harder to come by as the year draws to a close.

But whether this happens or not, most purchasing executives seem determined to hold the price line. Aside from continuing to search out import buys, many say they are now offering vendors the carrot of bigger, longer-term orders in return for price concessions or at least longer periods of guaranteed price levels.

Aggressive negotiation isn't about to be abandoned either. ***PW***